

# California Commission for Economic Development

*"Bringing California to the World"*

## ECONOMIC OVERVIEW

### California's World Ranking 2004 Gross Product

Rank	Countries	(\$ billions)
1	United States	\$11,668
2	Japan	\$4,623
3	Germany	\$2,714
4	United Kingdom	\$2,141
5	France	\$2,003
6	Italy	\$1,672
7	China (excluding Hong Kong)	\$1,649
8	<b>California</b>	<b>\$1,551</b>
9	Spain	\$991
10	Canada	\$980

Source: California Department of Finance.

In 2005, California dropped in rank from having the world's sixth-largest to the eighth-largest economy.<sup>1</sup> Despite the strengths of the Golden State's \$1.5-trillion economy, France, China and Italy surpassed California during the past three years and now rank as the fifth-largest, sixth-largest and seventh-largest economies in the world, respectively.<sup>2</sup> These changes in global rankings indicate that California must aggressively seek international trade opportunities to fuel the state's growth and offset the nation's ballooning \$69-billion trade deficit.<sup>3</sup>

### Employment

Steady gains in employment and personal income were spurred by the growth of the housing sector and a modest 3.5 percent rise in the United States' Gross Domestic Product (GDP) during the first three quarters of 2005. California's unemployment rate has continued to drop, from 6.2 percent in 2004, down to 5.3 percent in 2005.<sup>4</sup> Although the state's housing boom fueled job growth in construction and other housing-related sectors, California's unemployment rate remains slightly higher than the national rate of 5.1 percent.<sup>5</sup> The rise in GDP and employment nationwide increased the demand for California goods and services, which also helped to narrow the gap between state and national unemployment rates.

Despite the state's overall decline in unemployment over the past few years, the government sector has continued to lose jobs. In 2004, the government sector lost more jobs than any other industry in the state—three percent.<sup>6</sup> The Governor's reform initiative, the California Performance Review, threatened to cut thousands of public service and safety positions and the retirement benefits for employees in those sectors. However, voters' support of nurses, teachers, firefighters, police officers and other public sector employees during the special election on November 8, 2005, signaled a move to stabilize public sector employment and safeguard public services.

### California's National Ranking 2004 Gross Product

Rank	States	(\$ billions)
1	<b>California</b>	<b>\$1,551</b>
2	New York	\$896
3	Texas	\$884
4	Florida	\$599
5	Illinois	\$522
6	Ohio	\$420
7	New Jersey	\$416
8	Michigan	\$372
9	Georgia	\$343
10	North Carolina	\$336

Source: United States Bureau of Economic Analysis.

### Business Climate

California has experienced a steady growth in taxable sales, rising from approximately \$500.1 billion in 2004,<sup>7</sup> to an estimated \$525.5 billion in 2005.<sup>8</sup> According to the Small Business Administration, while 117,016 new businesses were established in 2004, there were 143,115 California businesses that failed the same year.<sup>9</sup> California's business climate is far from ideal, with the cost of doing business in the state estimated at 30 percent higher than the Western states' average.<sup>10</sup>

Two major events in 2005 influenced California's economic conditions: the spike in energy prices after Hurricanes Katrina and Rita and the continued incremental interest rate increases made by the United States Federal Reserve Bank.

<sup>1</sup> California Department of Finance, "California's World Ranking: 2004 Gross Product," [http://www.dof.ca.gov/HTML/FS\\_DATA/LatestEcon-Data/documents/BBRANK.XLS](http://www.dof.ca.gov/HTML/FS_DATA/LatestEcon-Data/documents/BBRANK.XLS).

<sup>2</sup>Ibid.

<sup>3</sup>California Mortgage Bankers Association, "Market Focus," December 14, 2005.

<sup>4</sup>California Department of Finance, <http://www.dof.ca.gov>.

<sup>5</sup> Ibid.

<sup>6</sup>Los Angeles Economic Development Corporation.

<sup>7</sup>California Board of Equalization, "Taxable Sales in California During 2004," 2005, <http://www.boe.ca.gov>.

<sup>8</sup>California Department of Finance, "California Governor's Budget 2006-2007," p. 26., <ftp://ftpgovbud.dof.ca.gov/pub/BudgetSummary/FullBudgetSummary.pdf>.

<sup>9</sup>Small Business Administration, "Small Business Profile: California," 2005, <http://www.sba.gov/advo>.

<sup>10</sup>Bain and Company, "California Competitiveness Project," Prepared for the California Business Roundtable, February 2004.